



## **OXFORD ANALYTICA**

### **RUSSIA**

### **MONETARY TRANSPARENCY**

#### **Country Report 2005**

Copyright © December 2005

Oxford Analytica Ltd  
5 Alfred Street  
Oxford OX1 4EH

Any reproduction in whole or in part without  
the written consent of Oxford Analytica Ltd  
is strictly forbidden.

# RUSSIAN FEDERATION



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	...	...	...	..
Open decision process	...	...	...	..
Availability of information	....	....	....	..
Central bank accountability	....	....	...	...
<b>Score</b>	<b>3.50</b>	<b>3.50</b>	<b>3.25</b>	<b>2.25</b>

## OUTLOOK & COMMENTARY

Russia's SDDS subscription constitutes an important recognition of the effort of the Central Bank of Russia (CBR) to improve transparency standards in the country. Progress towards an even more comprehensive provision of information on all areas of the central bank's activities seems set to continue, propelled by the central bank's strong reputation for high standards of professionalism. Progress in consolidating the banking sector promises to further enhance the role of financial intermediation in the economy. At the same time, the CBR is gradually divesting its remaining holdings in the banking sector.

The most important constraint on the CBR's activities will remain the difficulties associated with its dual targeting regime -- focussed on inflation and the exchange rate -- at a time of high liquidity and fiscal loosening. Full transparency in exchange rate management will invite market speculation, while the central bank will have to proceed carefully in order to keep inflationary expectations in check if oil prices remain high. A short-term transition to a fully transparent, rules-based monetary policy remains impossible under these circumstances.

## EXECUTIVE SUMMARY

### 3.50 Enacted

The independence of the Central Bank of the Russian Federation (CBR) is formally enshrined in law. Both the Central Bank Law, as well as a commitment to effective macroeconomic policy-making, mean that the central bank cooperates with the government in certain areas, whether formally or by choice. Beyond the CBR's constitutional responsibility to maintain the stability of the rouble, there is a statutory requirement to establish the exchange rate regime jointly with the government. More generally, the Central Bank Law calls on the CBR to support the government's economic policy to the extent it can without compromising its statutory responsibilities. The establishment of unequivocal *de facto* independence in the post-Soviet era has been gradual and further complicated by the challenges of the 1998 financial crisis. However, this process now appears largely complete and the central bank's operations are, moreover, supported by adequate human and material resources and generally characterised by a high degree of professionalism. Moreover, in spite of ongoing policy cooperation, the central bank has at times assumed policy stances that are at variance with those of the government. A recent case in point has to do with the CBR's concern over the inflationary impact of the government's looser fiscal stance.

The main challenge to the central bank's operations from the perspective of transparency has to do with the conduct of monetary policy making at a time when the CBR remains committed to combating inflation and managing the exchange rate at the same time. This dual targeting regime is unlikely to be abandoned in the near term, given the persistent and even increasing inflationary pressures in the country. At the same, sensitivity to exchange rate volatility is high, both in Russia's export industry and among the population as a whole, since many prices continue to be denominated in US dollars. Under the circumstances, full monetary policy transparency is impossible in as much as it would undermine the effectiveness of monetary policy. Although the central bank is providing steadily more information about the currency basket and its rouble appreciation targets, full transparency about the nature of the exchange rate would invite speculative behaviour on the part of the banks. Similarly, the targeted inflation range, which was recently revised in response to a clear increase in the Consumer Price Index, must be defined with care in recognition of its importance in influencing inflationary expectations. The reliance of this regime remains critical at a time of high liquidity and fiscal loosening, since the range of monetary policy instruments at the moment is not sufficient to absorb the liquidity.

In general, the CBR has continued its exemplary progress towards greater openness about its operations. The central bank's website is highly informative and Russia's subscription to the Special Data Dissemination Standard (SDDS) of the International Monetary Fund on 31 January 2005 constituted an important recognition of the progress made as well as a binding commitment to international standards.

Russia's overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS



Enacted

### The objectives and institutional framework of monetary policy

The main document governing the structure and actions of the Central Bank of Russia (CBR) is the 2002 Federal Law on the Central Bank of the Russian Federation.<sup>1</sup>

The CBR is headed by a chairman who is appointed by the State *Duma* for a four-year term, which can be renewed twice. Clear legal provisions govern the dismissal of the chairman.<sup>2</sup> The CBR has a 13-member Board of Directors whose members include four first deputy chairmen, four deputy chairmen, and heads of the Moscow and St Petersburg branches of the central bank.<sup>3</sup>

#### Central bank objectives and responsibilities

The Constitution of the Russian Federation singles out the “protection and stability of the rouble” as the main function of the CBR which “it shall exercise independently from other bodies of state power.”<sup>4</sup> Additionally, the CBR Law mandates the central bank to ensure the development of the Russian banking system and the efficient and uninterrupted functioning of the settlements system.<sup>5</sup>

The CBR fulfils several functions in pursuance of its objectives. It is responsible, jointly with the government, for the formulation and execution of monetary policy, as well as for the issuance of currency, for last-resort lending, for setting the rules to effect settlements and for banking operations, for servicing all government budget accounts, for managing foreign currency reserves, for regulating and supervising credit institutions, for registering the issuance of securities by credit institutions, for exercising foreign exchange regulation, for setting the procedures for international settlements, for setting and publishing official exchange rates, for forecasting and compiling the Russian balance of payments, for regulating currency exchanges, and for economic forecasts and data publications, as well as other functions as specified by law. The statutory responsibility for forecasting covers general macroeconomic forecasts, as well as specific areas, notably monetary, currency, and price-related issues.<sup>6</sup>

In pursuance of the Federal Law No 218-FZ of 30 December 2004 “On Credit Histories,” the CBR now hosts a central database of credit histories. The database has information on the agencies that hold data on each individual or entity with a credit history. In addition, the CBR temporarily stores the data compiled by credit bureaux that have terminated their operations. Credit information held in the database can be requested directly from the CBR through a special webpage. In contrast, the supervision of the credit bureaux is the statutory responsibility of the Federal Financial Market Service.<sup>7</sup>

#### Operational autonomy

The Constitution of the Russian Federation formally enshrines “the independence of the CBR in protecting and maintaining the stability of the rouble.”<sup>8</sup> The Central Bank Law further defines the central bank as an independent institution which should remain outside the influence of the government as it is not included in the structure of federal bodies of state power and acts as a special institution with the exclusive right to issue money and organise money circulation.<sup>9</sup> The independence of the CBR in protecting and maintaining the stability of the rouble is constitutionally enshrined. The central bank is legally accountable to the State *Duma* of the Federal Assembly. The *Duma* has the power to consider the guidelines for monetary policy, a policy document the central bank is required to

compile annually, and to adopt decisions on them. Moreover, the responsibility for the elaboration and execution of monetary policy is shared with the government.<sup>10</sup>

Monetary policy decision-making remains a consensual process, shared between the CBR and the Ministry of Finance (MoF).<sup>11</sup> Under the CBR Law, the central bank chairman or his deputy participates in meetings of the government and may participate in *Duma* sessions dealing with economic or financial matters. Conversely, the minister of finance and the minister of economic development and trade, or an authorised deputy, attend meetings of the CBR Board of Directors “with the right of a consultative vote.” The CBR and the government are required to inform each other of plans of national importance, as well as to coordinate their policies and hold regular consultations.<sup>12</sup> Among other things, the central bank comments on the government’s draft budget.

Even as the CBR has established a reputation for independence, some observers remain to be convinced of its ability to resist political pressure, not least because its current status and reputation have not been tested by a financial crisis. This perception is enhanced by the complexities of pursuing an inflation target and a managed exchange rate at the same time, and the apparent periodic shifts between prioritising one or the other.<sup>13</sup>

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

Under the Central Bank Law, the CBR is forbidden to lend money to the government for the purposes of financing the federal budget deficit or to buy securities at primary auctions, except as “stipulated by the federal budget law.” Similarly, lending to extra-budgetary funds, as well as regional and local budgets, is strictly forbidden.<sup>14</sup>

The last time the CBR was legally required to lend money to the government was in 1999 when foreign currency credit was provided for the purposes of foreign debt repayment.<sup>15</sup>

### **Central bank involvement in the rest of the economy**

The CBR Law prohibits CBR ownership of interests in credit organisations unless explicitly authorised by federal law.<sup>16</sup> The Savings Bank of the Russian Federation (Sberbank) and other, mainly foreign-based, banks have up to now been exempt from this provision.<sup>17</sup> The CBR is currently divesting from five foreign-based banks and the 2005 federal budget allocates the necessary resources for the 99.99% government-owned Vneshtorgbank to acquire them. The process should be completed by the end of the year.<sup>18</sup>

The CBR’s effective control of Sberbank through a 60.57% stake gives it a dominant position in the household deposit market, which Sberbank still strongly dominates, in no small measure through its strength in pension deposits. Admittedly, however, the position of Sberbank is coming under an increasing challenge by other banks as they build their reputations. The CBR also has a major ownership stake in the Russian capital markets. It holds a 28.76% stake in the Moscow Interbank Currency Exchange, the country’s leading securities exchange, as well as 8.9% of the St Petersburg Currency Exchange and 49% of the National Depository Centre, a non-profit partnership.<sup>19</sup>

The continuing control of Sberbank and the continuing CBR ownership of it remains a striking anomaly of the Russian financial market. A significant change to the situation, which defies simple solutions, is unlikely in the near term. Indeed, the CBR’s medium-term action plan does not prioritise developing a strategy for publicly owned banks. However, the distorting effects of the CBR ownership of Sberbank on the further development of the banking sector have been addressed with considerable success. The management and operations of Sberbank are fully separate from the CBR. Even the most important institutional advantage, a blanket government guarantee of its

deposits, was eliminated for new deposits in September 2004 when Sberbank was placed on an equal footing with other banks enrolled in the deposit insurance scheme.<sup>20</sup>

### **Central bank profit allocation**

Under the CBR Law, the central bank is required to transfer 50% of its after-tax profit to the federal government budget. The remainder is placed by the Board of Directors into various funds and reserves.<sup>21</sup> However, following a controversial precedent set in 2004, the federal law “On the Federal Budget for the Year 2005” once again mandates the transfer of 80% of the CBR’s after-tax profit to the federal budget in 2005.<sup>22</sup> The provision was adopted against CBR objections. The central bank’s *Annual Report* provides details of the CBR’s profit allocation.<sup>23</sup>

### **Agency roles performed by the central bank on behalf of the government**

In accordance with the Central Bank Law, as amended, the CBR acts as a banker to the government; services state funds and resources; services the budgets of oblasts and local entities; and manages Russia’s international reserves and internal debt position (through its management of the budget and extra-budgetary fund accounts).<sup>24</sup> The extra-budgetary funds served by the CBR include the Pension Fund and the Social Insurance Fund, as well as the Compulsory Medical Insurance Fund and its 500 local funds.<sup>25</sup>

The CBR exercised a statutory role as an agent of the government in the domestic sale of government securities. In practice, it is responsible for organising bond auctions by proposing the method of sale and the seller.<sup>26</sup>

The Russian government is to decide soon on the management of the country’s Stabilisation Fund, which has been created using tax receipts on oil extraction and exports. The funds are currently held at the CBR and the central bank is likely to be assigned a formal role in managing the assets.<sup>27</sup>

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Enacted

### The framework, instruments, and targets of monetary policy

#### Framework and monetary targets

Although the formal legal responsibility of the CBR is to maintain the stability of the rouble, the central bank has also singled out containing inflation as a key policy priority and, indeed, the principal target of its monetary policy. In connection with this objective, the annual Monetary Policy Guidelines established a target for consumer price inflation on the basis of fiscal policy projections. The central bank is openly committed to adopting a formal inflation-targeting regime in the medium term.

In practice, the liquidity created by high oil prices, as well as a shift towards a looser fiscal stance by the government, are making the CBR's efforts to curb inflation increasingly difficult. Inflation has been on a more or less steady upward course since the summer of 2004 when political uncertainty around the Yukos affair appears to have played an important role in triggering it.<sup>28</sup> This year, the central bank was forced to reluctantly abandon its inflation target of 8.5%, which it then replaced with a revised 10-11% target. Even this goal may prove unattainable, although the official figure for the first eleven months of the year indicated a slight deceleration in the consumer price index to 10%. Regardless of the outcome, the central bank is unlikely to abandon its cautious stance given the importance of managing inflationary expectations in the current environment. The continued reliance on the fairly widespread use of regulated prices -- some one-quarter of the Consumer Price Index basket -- in attaining this goal is a source of concern to the extent that it is used as an argument for further delaying de-regulation of the major utilities.<sup>29</sup>

In pursuance of the constitutional mandate to ensure the stability of the rouble, the CBR Law charges the central bank with the task of establishing and supporting the rouble exchange rate. To this end, the CBR currently pursues a dirty float exchange rate policy. The central bank's ability to curb rouble appreciation is made possible by its leading role as the buyer and seller on the foreign exchange market, even if the secular trend towards real exchange rate appreciation is set to continue. The current undervaluation of the rouble is evident from Russia's large current account surpluses. The Monetary Policy Guidelines always include a section discussing exchange rate prospects and central bank policy with a target cap on rouble appreciation.<sup>30</sup> Although the central bank is increasingly transparent about its exchange rate policy, full transparency looks virtually impossible in the near term given the need to curb speculative behaviour.<sup>31</sup> Thus, for example, it has not always been exactly clear to the markets what exact exchange the central bank has been targeting, even if more information is now available on the currency basket. The CBR officially moved to a dual currency target composed 90% of US dollars and 10% of euros on 1 February 2005.<sup>32</sup> An important indication of the CBR's commitment to transparency, the Monetary Policy Guidelines survey the implementation of the previous year's policy targets.<sup>33</sup>

In practice, anti-inflationary policies look likely to become increasingly reliant on permitting real appreciation of the rouble, even though the transmission mechanism between the exchange rate and inflation is fairly weak with some estimates suggesting that appreciation by 8-10% is required for a one percentage point reduction in inflation. However, the effectiveness of other monetary policy instruments is limited at present and the role of administrative measures will continue to decline due to a commitment to full exchange rate liberalisation in 2007. The CBR also appears eager to capitalise on ad hoc measures, such as repaying foreign debt. In fact, the main burden of sterilising

the inflows -- an estimated 45% -- falls on the Stabilisation Fund, which is administered by the CBR. In addition, the continuing capital outflows help the central bank in meeting its goal.<sup>34</sup>

### **Monetary instruments**

Under the CBR Law, the CBR uses all the standard instruments of monetary policy: interest rates, required reserve ratios, open-market operations, refinancing credit institutions, currency interventions, money supply growth targets, direct quantitative restrictions, and bond issues. The CBR is allowed to penalise credit institutions failing to meet the reserve requirements. The reserve ratios may not exceed 20% of a credit institution's obligations and cannot be changed by more than five points at a time. Reserve requirements are currently set at 2% for liabilities to non-resident banks and at 3.5% for deposits of households and other legal entities.<sup>35</sup> The availability of information on the different types of monetary policy instruments is very good, with the CBR webpage now providing comprehensive data on their use. Information on the use of requires reserves is also provided.<sup>36</sup>

The CBR has been gradually increasing the range of its monetary policy instruments in response to the need to absorb excess liquidity created by high oil prices. Nonetheless, the range of instruments is still insufficient for effective sterilisation. Deposit and reverse repurchase operations are now available for longer periods of three and six months, and even longer. Similarly, open-market operations with government securities have been common, although much of the debt portfolio continues to be non-tradable in spite of recent restructuring. The CBR now holds regular auctions to sell six-month federal government bills with a repurchase obligation. Deposit auctions have been used to attract funds from credit institutions for 1-3 months. The CBR sells government bonds directly from its portfolio. In addition, the CBR began to issue its own bills with terms of up to one year in September 2004. The Federal Law No 39-FZ of 22 April 1996 "On the Securities Market" was revised this year to dispense with the previous requirement for the CBR to register its securities issues with the Federal Securities Market Commission. This innovation will make it easier to capitalise on this instrument of liquidity management, the use of which has been relatively minimal to date. The use of monetary instruments is reviewed in the Monetary Policy Guidelines.<sup>37</sup>

## **The monetary policy-making body**

### **Monetary board**

The National Banking Board (NBB) is composed of 12 members of whom two are delegated by the Federation Council from among its membership, three by the State *Duma* from its deputies, three by the president of the Russian Federation, and three by the government. NBB members are not employees of the CBR. The CBR chairman is a permanent member. The NBB meets at least once every three months. It takes its decisions by a simple majority vote with the chairman, if necessary, casting the decisive vote. The minority opinions are recorded in the minutes if requested.<sup>38</sup>

The NBB considers information on the main issues relating to CBR activities, such as the implementation of the monetary policy guidelines, banking regulation and supervision, and the implementation of CBR policies on foreign exchange regulation and control. The NBB further decides on CBR participation in the capital of credit institutions, appoints the CBR chief auditor, and conducts several other functions.<sup>39</sup>

The CBR's Board of Directors (BoD), consisting of the Chairman of the CBR and 12 other members, is the permanent policy-making body.<sup>40</sup> The chairman is nominated by the president and appointed by the *Duma* through a majority vote. The chairman recommends the members of the board, who are appointed for a period of four years by the *Duma*, on the agreement of the president.<sup>41</sup>



BoD decisions require a majority vote, with a quorum of seven attending members. Decisions on the main monetary policy issues are published in the CBR's weekly review *Vestnik Banka Rossii*.<sup>42</sup>

The BoD is responsible for elaborating, together with the government, the monetary policy guidelines. It also approves the CBR's annual financial statements. The BoD sets the main monetary policy variables: compulsory standards for credit institutions, the amount of reserve requirements, changes in CBR interest rates, and limits on open-market operations. It further adopts decisions on the issuance of currency.<sup>43</sup>

The Central Bank Committee for Monetary Policy, which is accountable to the Board of Directors, plays an important role in policy formulation and implementation. The Committee is chaired by the CBR chairman and comprises the deputy chairman responsible for foreign exchange and open market operations, as well as directors of nine departments. The Committee's main responsibility is to prepare materials for the Board of Directors concerning proposals for changes in interest rates and in the composition and valuation of securities used as collateral. The Committee makes decisions on credit and deposit auctions, as well as repurchase and reverse repurchase operations.<sup>44</sup>

### **Advance meeting schedule**

The Board of Directors is required to meet at least once a month, but the CBR does not disclose an advance meeting schedule.<sup>45</sup> The National Banking Board is required to have at least quarterly meetings.<sup>46</sup>

## **Public statements on monetary policy**

### **Periodic publications**

The *Annual Report* provides a survey of the economic situation in Russia, information about government finances and public sector debt, an overview of the financial sector, data on the balance of payments and foreign debt, a discussion of the global economy, and an account of the activities of the CBR, including a section on banking regulation and supervision.<sup>47</sup> The CBR's *Guidelines for the Single State Monetary Policy* (Monetary Policy Guidelines) is the main official publication on monetary policy for the year.

The *Bulletin of Banking Statistics* appears every month. The CBR's weekly review -- *Vestnik Banka Rossii* -- discloses monetary and economic indicators, analysis of data, and all new legal documents. The CBR provides press releases for any major events, decisions, and meetings.<sup>48</sup> Most of the central bank's publications, with the exception of the *Vestnik* are available in both Russian and English, although the translation sometimes appears with considerable delay.

The main analytical publications are the monthly *Information and Analytical bulletin "Russia: Economic and Financial Situation"* (*Informatsionno-analiticheskii biulleten' "Rossiia: Ekonomicheskoe i finansovoe polozhenie"*) and the less frequent regional review *"Current Trends in the Russian Economy (Regional Dimension)"* (*Tekushchie tendentsii v Rossiiskoi ekonomike (regional'nyi aspekt)*).<sup>49</sup>

### **Public hearings**

The CBR chairman is required by law to appear before the *Duma* twice a year and can be asked to do so more frequently.

Regular public hearings on monetary policy are not held. However, the CBR now invites representatives of the banking community and external experts to consultations over issues such as the development of financial systems

and banking system regulation.<sup>50</sup> Although the process of consultations has no basis in law, it has been formalised and there is frequent interaction. The contents of such discussions are not ordinarily published and, for example, the details of the CBR's macroeconomic model are not publicly available. However, macroeconomic scenarios based on the models are presented in the Monetary Policy Guidelines.<sup>51</sup>

The CBR Law stipulates a consultative process in connection with major changes to relevant legislation. The CBR is required to cooperate with credit institutions and their associations and "hold consultations with them before taking the most important decisions in relation to legislation."<sup>52</sup> In an effort to increase the openness of this process, the central bank now published all draft regulations on its website, so as to allow interested parties to review them and to contact the CBR with any comments.<sup>53</sup>

## Regulations on data reporting by financial institutions to the central bank

The CBR Law places the central bank in charge of banking regulation and supervision, a responsibility carried out through the Banking Supervision Committee, which is a permanent body of the CBR. To this end, the CBR is authorised to request and receive all relevant information from credit institutions. The CBR is further required to publish statistical data on the Russian banking system.<sup>54</sup> The CBR's monthly *Bulletin of Banking Statistics* (*Byulleten bankovskoi statistiki*), along with other indicators of the situation in the financial sector, is available through the CBR website.<sup>55</sup> There are a number of regulations on data reporting to the CBR, and these are posted on the CBR website.<sup>56</sup>

In connection with its supervisory function, the CBR has far-reaching powers to ensure the stability of the banking system through monitoring, inspection, and penalties. Following the adoption of its Development Strategy for the Banking Sector of the Russian Federation, the CBR is actively involved in reforming the legislative framework governing the financial sector as well as pursuing a systematic reform designed to improve prudential standards. The adoption of International Financial Reporting Standards in 2004 has helped improve the effectiveness of monitoring and overall transparency. The CBR is further intending to develop risk-based supervision, as well as improved governance and transparency of bank ownership.<sup>57</sup> Russia is expected to fully implement the International Accounting Standards (IAS) for the financial statements of banks as of 2007. However, the new system will not be used for regulatory purposes at home and the CBR has, consequently, produced a system of mapping Russian accounting standards to IAS. In addition to their tax reporting, the banks will therefore have to keep their accounts according to two other methodologies, which will have negative cost implications. A new version of risk guidelines, designed to help assess the stability of the financial sector, is likely to be completed next year. The central bank is currently also collecting information on the quality of assets held by Russian banks with a view to properly assessing the risks facing the sector. The information will be stored in a database. In addition, the CBR now requires banks to publish information about their owners, as well as the owners of their owners.<sup>58</sup>

Russia in 2004 introduced a deposit insurance scheme and the CBR, as the banking sector regulator, is supervising the process of admitting banks to the programme. Although the process was designed, among other things, to weed out some weaker institutions, the coverage has been extended very liberally. At the same time, however, the enforcement of new anti-money laundering legislation is being used to accelerate the process of banking-sector restructuring. In spite of considerable progress, important questions remain about the resilience of the banking sector. CBR stress-testing points to increased credit risks due to the relatively rapid expansion of the sector, as well as the broader economic risks associated with the heavy dependence of the economy on oil and gas. There is concern that the high hydrocarbons prices might be allowing structural problems to persist unheeded. The CBR estimates that a shock on the scale of the 1998 crisis would result in losses of 4% of GDP.<sup>59</sup> Measures for reforming the banking sector and banking supervision are reviewed in the Monetary Policy Guidelines.<sup>60</sup>

The CBR also intends to collect data from private sector pension funds and insurance companies, which some commentators criticised as an attempt to interfere outside the area of monetary policy. However, the information is seen as necessary to compile macroeconomic statistics and the process was based on consultation with the Federal Financial Market Service and the Ministry of Finance.

Credit bureaux are now required to report to the CBR the coverage of their data. The central database maintained by the central bank indicates where the credit information on all rated individuals and entities is kept.<sup>61</sup>

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

#### Release of central bank data

Following several years of preparatory work and the de facto adoption of the relevant requirements, Russia joined IMF Special Data Dissemination Standard (SDDS) on 31 January 2005 and now presents its monetary statistics in accordance with the SDDS methodology. This step constitutes an important recognition of the quality of the CBR's work in the area of statistics, as well as a formal commitment to upholding international best practice standards. An advance release schedule is available on the website.<sup>62</sup>

The CBR's *Bulletin of Banking Statistics* also contains monetary data. The central bank website posts daily a variety of data including the official exchange rate, the CBR's deposit rates, inter-bank rates, and government securities market rates. The CBR further publishes all main financial and external sector indicators on its website, accompanied by an explanation of the methodology used to obtain them.<sup>63</sup>

The information on open-market operations and the balances of transactions involving the injection or withdrawal of liquidity are available on the CBR website. Monetary statistics include also data on credit institutions whose licenses have been revoked. Since the beginning of 2004, accrued interest on deposits of non-financial institutions and private individuals are included in the monetary aggregates. The time series has been revised accordingly. Following the requirements of the IMF Monetary and Financial Statistics Manual, the reserves for possible losses by credit institutions on active operations were transferred from the capital accounts aggregate to the "other" aggregate and past data updated accordingly. Since July, the *Bulletin of Banking Statistics* has included information on CBR Lombard loan auctions. The "Broad Monetary Base" data includes, since September 2004, reserve funds for foreign exchange operations deposited at the CBR in compliance with the Bank of Russia Ordinance No 1465-U of 29 June 2004 "On Setting Requirements for Creating Reserves while Crediting/Debiting Special Bank Accounts."<sup>64</sup>

#### The central bank balance sheet

The CBR publishes a consolidated balance sheet on a monthly basis. Most assets are recorded at their initial cost and liabilities when they arise. The CBR's foreign exchange assets and liabilities are re-valued daily at the official rates of exchange. Government securities in the trade portfolio are re-valued at the average weighted price. Fixed assets are shown at their residual value.<sup>65</sup> An annual consolidated balance sheet is included in the *Annual Report*.

#### Lender of last resort

The CBR Law authorises the central bank to act as lender of last resort. The CBR engages in refinancing operations for the purpose of ensuring the uninterrupted effectuation of settlements. The instruments available include currency swap transactions, intra-day and overnight loans, Lombard loans (fixed rate short-term loans against government securities), and repurchase operations. The availability of intra-day, overnight, and Lombard loans has increased dramatically in recent years and is now virtually nationwide. By comparison, these facilities were available in only 4 of Russia's 89 regions at the beginning of 2003. The list of securities qualifying for Lombard credit purposes was extended to include the Russian government's foreign currency bonds, bonds issued by constituent regions of the Russian Federation, mortgage-backed bonds, CBR bills, and corporate bonds with long-term credit ratings.<sup>66</sup> The

central bank has been developing loans of up to six months backed up by a formal collateral in the form of bond or comparable claims. The CBR in 2002 agreed on a unified scheme on internal lending to banks. The range of permissible instruments for purposes as collateral is growing and was this year increased to include discounted bills (*vekseli*), as well as discounted bills of, or credit claims to, companies in transport and communication, construction, and industry, and guarantees by credit organisations with long term credit ratings. However, this facility is currently available only through 18 of the regional branches of the CBR. Details of CBR lending are provided in the *Annual Report*.<sup>67</sup>

The CBR publishes a list of all the instruments accepted as collateral. Somewhat problematically, however, the law limits collateral to safe, liquid short-term instruments, although the list has been extended. Thus, for example, bank loans do not qualify, since they are not securities. This position, which was originally developed under the conditions of a much less stable and more fragmented banking system, does little to recognise the long-term solvency of banks. In a situation of excess liquidity, such concerns are of little practical importance, especially since the CBR is also interested in gradually reducing the number of banks in the country. In a true crisis situation, however, the CBR might be able to overcome some of the regulatory limitations by working with Sberbank, although the central bank's willingness to serve as a lender of second to last resort remains in doubt.

The CBR is ordinarily allowed to extend loans for up to one year and it can further issue warranties and bank guarantees.<sup>68</sup> Although the use of last resort lending has been relatively minimal, short-term credit facilities are used on a regular basis due to changing liquidity requirements, which mirror the monthly schedule of tax remittances by banks.

## Public information services

The CBR is under legal obligation to publish monthly data on its balance, cash flow, and overall operations. Its *Annual Report* must be published by 15 July of the following year. The CBR also publishes its major public document *Guidelines for the Single State Monetary Policy*, on an annual basis. The CBR established a press centre in 2001, when it held the first public presentation of the *Annual Report*.

A wealth of information on the CBR's activities, including all its publications, is available on the central bank website. A selection of key speeches, public reports, and interviews is reproduced there.<sup>69</sup> There are relative few published materials on the CBR's analytical and research work, apart from the results which are included in the periodic publications. The vast majority of the information at the website is provided in both Russian and English. Contact information is available for public enquiries.

#### 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

##### Accountability before a designated public authority

The CBR Law stipulates that the central bank is accountable to the *Duma*. The CBR chairman must report to the *Duma* biannually and at any other time at the discretion of the *Duma*. The CBR is also legally required to submit its *Annual Report* -- containing an audited financial statement -- to the *Duma* no later than 15 May of the year following the reporting year. The *Duma* will complete its deliberations on the report by 1 July.<sup>70</sup> The *Duma* holds special hearings with officials from the Audit Chamber of the Russian Federation, which has a statutory responsibility to audit CBR activities. The CBR Law mandates the CBR to submit its draft monetary policy guidelines to the *Duma* by 26 August of the preceding year and the final guidelines -- containing projected scenarios for the year -- by 1 December. The *Duma* decides on the guidelines before passing the federal budget for the year.<sup>71</sup>

##### Financial statement

###### Audited financial statement

The *Annual Report* contains the CBR's financial statement. This is published along with the external auditor's statement. There are some lacunae in the CBR's external audit reports due to legislation governing state secrets.<sup>72</sup>

###### External and internal audit

The National Banking Board (NBB) is legally required to select a licensed auditing firm to carry out an audit of the CBR's accounts before the end of a given reporting year.<sup>73</sup> Such appointments are made for a year at a time but can be renewed with no formal limitation on the number of renewals. The current auditors are PricewaterhouseCoopers.

The Accounts Chamber (*Schetnaia palata*) of the Russian Federation is responsible for auditing CBR operations affected by the federal law "On State Secrets."<sup>74</sup> These include holdings of precious metals and the division serving the Ministry of Defence. The Chamber publishes the conclusions of its findings in the CBR *Annual Report*.<sup>75</sup>

The internal audit of the CBR is carried out by the central bank's Internal Audit and Inspection Department. The internal audit division has representatives also in regional branches of the CBR. In 2002, 99.7% of the CBR's operations were subjected to some form of internal audit and 44.2% to comprehensive inspections. The Internal Audit and Inspection Department is responsible for assessing the legal compliance of the financial and economic activities of the CBR and its branches and to eliminate any shortcomings in a timely fashion.<sup>76</sup>

##### Conduct of officials

The CBR Law imposes few requirements on employee conduct. People on the central bank's payroll are not allowed to engage in other paid employment (outside of teaching and research) and must inform the CBR's board within ten days of any purchase of shares in any credit institution. CBR employees are forbidden to disclose information about the CBR without the consent of the Board of Directors.<sup>77</sup> CBR personnel are guided by the "Model Qualification Standards of the Staff of the Bank of Russia," approved by the CBR Board of Directors in July 2003.<sup>78</sup>

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Russia between 10 and 14 October 2005:

### Central Bank of the Russian Federation

#### 11 October 2005

Ekaterina Prokunina	Deputy Director	General Economic Department
---------------------	-----------------	-----------------------------

### Ministry of Finance

#### 12 October 2005

Aleksandr A. Komkov	Consultant	Department of Macroeconomic Policy
---------------------	------------	------------------------------------

## ADDITIONAL INTERVIEWS

#### 10 October 2005

Neven Mates	Senior Resident Representative	International Monetary Fund
Vadim Kleiner	Director of Research	Hermitage Capital Management

#### 11 October 2005

Elena Panfilova	Director	Transparency International
Aleksei Makrushin	Economist	CEFIR
Vladimir V. Klimanov	Director	Institute for Public Finance Reform ( <i>Institut Reformirovaniya Obshchestvennykh Finansov</i> )

#### 12 October 2005

Richard Hainsworth	Director	RusRating
Galina Kurlyandskaya	General Director	Center for Fiscal Policy ( <i>Tsentr fiskalnoi politiki</i> )
John Litwack	Chief Economist	World Bank, Moscow
Al Breach	Research Director	Brunswick UBS

#### 13 October 2005

Anton Strouchenevski	Economist	Troika Dialog
Vladimir I. Tikhomirov	Senior Economist	Uralsib
Alexey Moisseev	Deputy Head of Research	Renaissance Capital



## NOTES

- <sup>1</sup> See [www.cbr.ru/eng/today/status\\_functions/print.asp?file=law\\_e.htm](http://www.cbr.ru/eng/today/status_functions/print.asp?file=law_e.htm)
- <sup>2</sup> Federal Law on the Central Bank of the Russian Federation (hereafter CBR Law), Article 14.
- <sup>3</sup> CBR Law, Article 15; [www.cbr.ru/eng/today/directors\\_board/](http://www.cbr.ru/eng/today/directors_board/)
- <sup>4</sup> Constitution of the Russian Federation, Article 75(2).
- <sup>5</sup> CBR Law, Article 3.
- <sup>6</sup> CBR Law, Article 4.
- <sup>7</sup> [www.cbr.ru](http://www.cbr.ru) > Tsentral'nyi katalog kreditnykh istorii; [ckki.www.cbr.ru/218\\_fz.pdf](http://ckki.www.cbr.ru/218_fz.pdf).
- <sup>8</sup> Constitution of the Russian Federation, Article 75.
- <sup>9</sup> CBR Law, Articles 1, 2.
- <sup>10</sup> CBR Law, Articles 4, 5.
- <sup>11</sup> Interviews in Russia, 10-14 October 2005.
- <sup>12</sup> CBR Law, Article 21.
- <sup>13</sup> Interviews in Russia, 10-14 October 2005.
- <sup>14</sup> CBR Law, Article 22.
- <sup>15</sup> Interviews in Russia, 10-14 October 2005.
- <sup>16</sup> CBR Law, Articles 8.
- <sup>17</sup> CBR Law, Article 8; Central Bank of the Russian Federation, *Annual Report 2002*, Moscow, 2003, available at: [www.cbr.ru](http://www.cbr.ru)
- <sup>18</sup> Interviews in Russia, 10-14 October 2005; <http://www.vtb.ru/rus/web.html?s1=400>.
- <sup>19</sup> Tsentral'nyi Bank Rossiiskoi Federatsii, *Godovoi otchet 2004*, Moscow, 2005, p. 115.
- <sup>20</sup> Interviews in Russia, 10-14 October 2005.
- <sup>21</sup> CBR Law, Article 26.
- <sup>22</sup> Federal Law No 173-FZ of 23 December 2004 "On the Federal Budget for the Year 2005," Article 23.
- <sup>23</sup> Interviews in Russia, 10-14 October 2005.
- <sup>24</sup> CBR Law, Article 23.
- <sup>25</sup> Central Bank of the Russian Federation, *Annual Report 2003*, Moscow, 2004.
- <sup>26</sup> Interviews in Russia, 15-18 October 2004.
- <sup>27</sup> Interviews in Russia, 10-14 October 2005.
- <sup>28</sup> *Containing Inflation*, Troika Dialog Research: Russia: Economy, 13 April 2005.
- <sup>29</sup> "Russian Economics & Strategy," Brunswick UBS, 22 September 2005; IMF, "Russian Federation: 2004 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion," IMF Country Report No 04/314, September 2004, pp. 18, 20; *Osnovnye napravleniya edinoy gosudarstvennoi denezhno-kreditnoi politiki na 2005 god* (Monetary Policy Guidelines for the year 2005), Tsentralny bank Rossiiskoi Federatsii, 2004, [www.cbr.ru/today/publications\\_reports/on\\_2005.pdf](http://www.cbr.ru/today/publications_reports/on_2005.pdf).
- <sup>30</sup> Aleksei Moisseev, *The Rouble & Inflation: New Policy – New Forecasts*, Renaissance Capital: Economics, 19 November 2004, p. 1; *Osnovnye napravleniya edinoy gosudarstvennoi denezhno-kreditnoi politiki na 2005 god*, pp. 25-26.
- <sup>31</sup> *A Bed Time Story?: The CBR and Its Foreign Exchange Policy*, Renaissance Capital: Fixed Income, 16 September 2005.
- <sup>32</sup> "Russia; TsBR Adds Euro Rate to Currency Target," *Oxford Analytica Daily Brief*, 1 March 2005.
- <sup>33</sup> *Osnovnye napravleniya edinoy gosudarstvennoi denezhno-kreditnoi politiki na 2005 god*, pp. 11-18.
- <sup>34</sup> Aleksei Moisseev, *The Rouble & Inflation: New Policy – New Forecasts*, pp. 2, Aleksei Moisseev, *From Capital Flight to Capital Outflow*, Renaissance Capital:Economics, 7 September 2004.
- <sup>35</sup> CBR Law, Articles 35-44.
- <sup>36</sup> [www.cbr.ru/analytics/standart\\_system](http://www.cbr.ru/analytics/standart_system).
- <sup>37</sup> *Osnovnye napravleniya edinoy gosudarstvennoi denezhno-kreditnoi politiki na 2005 god*, pp. 29-31.
- <sup>38</sup> CBR Law, Article 12.
- <sup>39</sup> CBR Law, Article 13.
- <sup>40</sup> CBR Law, Article 15.
- <sup>41</sup> CBR Law, Articles 5, 14, and 15.
- <sup>42</sup> [www.cbr.ru/vestnik](http://www.cbr.ru/vestnik).
- <sup>43</sup> CBR Law, Article 18.
- <sup>44</sup> Information provided by the CBR.



- 
- <sup>45</sup> CBR Law, Article 17.
- <sup>46</sup> CBR Law, Article 12.
- <sup>47</sup> Central Bank of the Russian Federation, *Annual report 2002*, Moscow, 2003.
- <sup>48</sup> [www.cbr.ru/vestnik](http://www.cbr.ru/vestnik).
- <sup>49</sup> [www.cbr.ru/today/publications\\_reports](http://www.cbr.ru/today/publications_reports).
- <sup>50</sup> Interviews in Russia, 10-14 October 2005.
- <sup>51</sup> *Osnovnye napravleniya edinoi gosudarstvennoi denezhno-kreditnoi politiki na 2005 god*, pp. 19-21.
- <sup>52</sup> CBR Law, Article 77.
- <sup>53</sup> [www.cbr.ru/analytics/standart\\_acts/projects](http://www.cbr.ru/analytics/standart_acts/projects).
- <sup>54</sup> CBR Law, Articles 56, 47.
- <sup>55</sup> *Osnovnye napravleniya edinoi gosudarstvennoi denezhno-kreditnoi politiki na 2004 god*;  
[www.cbr.ru/BBS/bank\\_bulletin.asp](http://www.cbr.ru/BBS/bank_bulletin.asp); [http://www.cbr.ru/statistics/bank\\_system](http://www.cbr.ru/statistics/bank_system); [www.cbr.ru/analytics/bank\\_system](http://www.cbr.ru/analytics/bank_system)
- <sup>56</sup> [www.cbr.ru/MSFO/main.asp?Prtd=BankStatus](http://www.cbr.ru/MSFO/main.asp?Prtd=BankStatus)
- <sup>57</sup> The CBR Instruction No 1376-U “On the List, Forms, and Procedure of Compiling and Presenting Reports by Credit Institutions to the CBR” contains all report forms submitted by credit institutions. IMF, “Russian Federation: 2004 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion,” IMF Country Report No 04/314, September 2004, p. 23; [www.cbr.ru/MSFO](http://www.cbr.ru/MSFO); p. 23
- <sup>58</sup> Interviews in Russia, 10-14 October 2005.
- <sup>59</sup> IMF, “Russian Federation: 2004 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion,” IMF Country Report No 04/314, September 2004, p. 22; Richard Hainsworth and Andrew Keeley, *Retail Banking in Russia: Rich Pickings?*, Renaissance Capital: Banking, 27 October 2004.
- <sup>60</sup> *Osnovnye napravleniya edinoi gosudarstvennoi denezhno-kreditnoi politiki na 2005 god*, pp. 32-35.
- <sup>61</sup> [www.cbr.ru](http://www.cbr.ru) > Tsentral’nyi katalog kreditnykh istorii; ckki. [www.cbr.ru/218\\_fz.pdf](http://www.cbr.ru/218_fz.pdf)
- <sup>62</sup> See the IMF SDDS link at [www.cbr.ru](http://www.cbr.ru); For the recent schedule:  
[www.cbr.ru/datas\\_standart/print.asp?file=cal\\_rus.htm](http://www.cbr.ru/datas_standart/print.asp?file=cal_rus.htm)
- <sup>63</sup> [www.cbr.ru/datas\\_standart/print.asp?file=data\\_rus.htm](http://www.cbr.ru/datas_standart/print.asp?file=data_rus.htm); [www.cbr.ru/datas\\_standart/print.asp?file=meth\\_rus.htm](http://www.cbr.ru/datas_standart/print.asp?file=meth_rus.htm)
- <sup>64</sup> Interviews in Russia, 10-14 October 2005; [www.cbr.ru/BBS/bank\\_bulletin.asp](http://www.cbr.ru/BBS/bank_bulletin.asp)
- <sup>65</sup> [www.cbr.ru/eng/today/cbr\\_balance/main.asp](http://www.cbr.ru/eng/today/cbr_balance/main.asp)
- <sup>66</sup> *Osnovnye napravleniya edinoi gosudarstvennoi denezhno-kreditnoi politiki na 2004 god*; Interviews in Russia, 10-13 October 2005.
- <sup>67</sup> Central Bank of the Russian Federation, *Annual Report 2002*, Moscow, 2003.
- <sup>68</sup> CBR Law, Article 46.
- <sup>69</sup> [www.cbr.ru/today/publications\\_reports](http://www.cbr.ru/today/publications_reports)
- <sup>70</sup> CBR Law, Article 25.
- <sup>71</sup> CBR Law, Article 45.
- <sup>72</sup> Central Bank of the Russian Federation, *Annual Report 2002*, Moscow, 2003.
- <sup>73</sup> CBR Law, Article 93.
- <sup>74</sup> Federal Law “On the Accounts Chamber of the Russian Federation,” revised Article 19, 2002;  
[www.ach.gov.ru/zakon/fedzakon/19new.shtml](http://www.ach.gov.ru/zakon/fedzakon/19new.shtml)
- <sup>75</sup> [www.ach.gov.ru](http://www.ach.gov.ru)
- <sup>76</sup> CBR Law, Articles 18, 25, 95; *Godovoi otchet 2002* (Annual Report).
- <sup>77</sup> CBR Law, Articles 90, 92.
- <sup>78</sup> Interviews in Russia, 10-14 October 2005.